

# THE ROLE OF POLITICAL COMPETITION BETWEEN AUDIT FINDINGS AND AUDIT OPINIONS

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## ARTICLE INFO

Article history:

Received August 12, 2024

Revised September 17, 2024

Accepted September 23, 2024

**Key words:**

**Audit Findings; Audit Opinion; Political Competition**

DOI:

<https://doi.org/10.33508/jako.v16i3.5838>

## ABSTRACT

**Research Purposes.** This study aimed to determine the influence of audit findings on audit opinion involving the moderating variable of political competition among regencies/city governments in Indonesia.

**Research Methods.** The secondary data are analyzed quantitatively utilizing binary logistic regression and MRA (Moderated Regression Analysis), processed by SPSS version 25 software. The population involves the entire 508 local governments of city-regencies in Indonesia, from which 395 sample cities/regencies in Indonesia in fiscal year 2016 were selected using purposive sampling.

**Research Results and Findings.** The results showed that audit findings on internal control system weaknesses and non-compliance with legislation have a negative and significant effect on audit opinion, which means that more audit findings lessen the chance for the government to obtain an unqualified opinion. In addition, political competition strengthens the effect of audit findings of non-compliance with legislation and weaknesses in the internal control system on audit opinion. It implied that local governments in Indonesia should enhance internal controls and compliance and account for political factors to improve audit opinions.

## ABSTRAK

**Tujuan Penelitian.** Studi ini memiliki tujuan untuk melihat adanya pengaruh temuan audit terhadap opini audit dengan menggunakan variabel pemoderasi yakni kompetisi politik pada pemerintah kota atau kabupaten di Indonesia.

**Metode Penelitian.** Studi ini telah menerapkan metode kuantitatif dengan data sekunder. Analisis data menerapkan metode regresi logistik biner serta MRA (Moderated Regression Analysis) menggunakan aplikasi komputer SPSS versi 25. Populasi studi ini adalah semua pemerintah daerah di Indonesia mencakup kota hingga kabupaten sejumlah 508 pemerintah daerah. Studi ini menerapkan purposive sampling dengan 395 sampel yang diperoleh dari kota atau kabupaten di Indonesia pada tahun anggaran 2016.

**Hasil Penelitian dan Temuan Penelitian.** Hasil Studi ini menemukan bahwa temuan audit untuk ketidakpatuhan pada undang-undang dan kelemahan sistem pengendalian intern memiliki pengaruh secara negatif serta signifikan pada opini audit yang dapat diartikan bahwa meningkatnya temuan audit akan membuat peluang pemerintah dalam mendapat opini wajar tanpa pengecualian akan menurun. Selain itu, kompetisi politik memperkuat hubungan antara temuan audit untuk ketidakpatuhan pada undang-undang serta temuan audit untuk kelemahan sistem pengendalian intern terhadap opini audit. Implikasi penelitian ini menunjukkan bahwa pemerintah daerah di Indonesia perlu memperbaiki sistem pengendalian internal dan kepatuhan hukum, serta mempertimbangkan faktor politik untuk meningkatkan opini audit.

## INTRODUCTION

Political factors strongly influence local financial management. Political involvement from regional heads and Regional House of Representatives

members influences the decision-making process related to budgets, activity implementation, and financial accountability. In this context, public choice

theory considers that collective decisions are influenced by personal or group interests, which often override the public interest (Maskur, 2021). Accounting disclosures or accounting disclosures have an attachment to politics (Giroux, 1989; Jannah & Adhariani, 2019; Dewi et al., 2021; Kallias et al., 2022; Resce, 2022; Mekhaimer et al., 2024). The involvement of politics in the regional financial management cycle, in which the role of public officials as board members and regional heads is closely related to budget plans and activities and financial responsibility procedures. Dewi et al. (2021) have explained that political competitiveness affects the disclosure of financial information. As the owner of the highest power over regional financial management, the regional head has political influence. Butler (2012) and Mengiste (2019) state that personal interests and political competition often influence public officials' decisions. Similarly, as a community representative, the Regional House of Representatives has political influence through its functions, namely legislation, budgeting, and supervision. Regional heads and House of Representatives, often from different political parties, engage in political competition. This competition can have a negative impact on financial management if personal or group interests take precedence over the public interest. In this case, financial governance can be compromised, especially regarding internal control systems called sistem pengendalian internal (SPI) and compliance with laws and regulations.

The audit mainly aims to build the credibility of the client's financial statements to protect the interests and trust of shareholders and creditors (Aguilar et al., 2024). Audit reports can be influenced by various factors, one of which is the company factor, which is essential to consider because the influence of company attributes can be directly influenced by ownership concentration (Hendi & Sitorus, 2023). Local governments must be able to present local government financial reports called Laporan keuangan pemerintah daerah (LKPD) to provide accountability and transparency in managing local finances (Mardiasmo, 2002). The preparation of local government financial reports is based on Government Accounting Standards called Standar Akuntansi Pemerintah (SAP), which is by Government Regulation Number 24 of 2005 and then developed into Government Regulation Number 71 of 2010, specifically for local governments regulated by the Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 64 of 2013 (Indonesia, 2008; Indonesia, 2010). Local governments

adequately create Local Government Financial Reports, subject to audits by the Audit Board of the Republic of Indonesia called Badan Pemeriksa Keuangan (BPK). Local Government Financial Reports are examined, and the Supreme Audit Agency has imposed audits to provide results, namely audit opinions attached to the Overview of Semester Audit Results in Indonesian it is called Ikhtisar Hasil Pemeriksaan Semester (IHPS) one and two (Badan Pemeriksa Keuangan Republik Indonesia, 2017a; Badan Pemeriksa Keuangan Republik Indonesia, 2017b). Financial audits, especially those conducted by the Audit Board of the Republic of Indonesia, play an essential role in ensuring the accountability of local government financial statements. The Audit Board of the Republic of Indonesia audits local government financial reports and provides an audit opinion based on their findings. Four types of opinions are given: unqualified, qualified, disclaimer of opinion, and adverse opinion. An unqualified opinion indicates a financial report that complies with standards, while an opinion other than unqualified indicates weaknesses in financial management. Based on Law number 15 of 2004, it has been stated that an opinion is an argument from a professional made by an examiner for the final result related to the fairness of information presented in the form of financial statements (Indonesia, 2004).

The highest degree of opinion of the four opinions is unqualified, where it shows financial statement information that is presented fairly, referring to Government Accounting Standards and various other criteria. Meanwhile, other opinions, namely qualified, disclaimer of opinion, and adverse opinion, have indicated that the government cannot provide financial reports equivalent to Government Accounting Standards. The audit opinion that the Audit Board of the Republic of Indonesia has produced as a product of the inspection of Local government financial reports is explained in several findings. Each of the findings has covered one or more issues regarding non-compliance with legislation and weaknesses in the Internal Control System. The risk of detecting local government non-compliance and errors in audit opinions is caused by differences in concepts in determining conditions (Habiby & Ritonga, 2020). The effectiveness of the Internal Control System is one of the standards used by the Audit Board of the Republic of Indonesia, which adapts from Article 16 paragraph (1) of Law number 15 of 2004 to test the fairness of financial information (Indonesia, 2004). This shows that an understanding of the internal control systems and compliance with

the rules of the law plays a crucial role in making audit decisions, from preparing the plan to providing local government financial reports opinions.

Likewise, there is an obligation to comply with the regulatory provisions in the law.

**Table 1. Audit Findings and Opinions on Local Government from 2015 to 2017**

Financial Reports Year	Unqualified	Nonunqualified	Findings	
			Internal Control Systems	Non-compliant
2015	313	229	6150	6016
2016	378	164	6116	6161
2017	411	131	6222	6558
Total	1102	524	18488	18735

Sumber: Badan Pemeriksa Keuangan (2017a)

The opinion of the Local Government Financial Reports showed an increase from 2015 to 2017, marked by the increasing number of unqualified local governments. In 2016, there was an increase of 65 regions that received unqualified, bringing the total to 378 regions. However, although, in general, the quality of local government financial reports improved, some regions also experienced a decline. About 4% of 537 local government financial reports in 2016 experienced a decrease in opinion, higher than the following years, where only 12 regions in 2017 and 15 regions in 2018 experienced the same thing. Although regional financial reports improved quality, the Audit Board of the Republic of Indonesia still found many problems. In 2016, 164 regions had not yet obtained unqualified opinions. The Audit Board of the Republic of Indonesia revealed 8,026 findings with a total of 12,277 problems, consisting of 6,116 problems related to the Internal Control System and 6,161 violations of non-compliance with laws, with a loss value of 2.085 trillion rupiah. This shows that the improvement in opinion does not fully reflect optimal governance.

In public choice theory, elected officials often prioritize their personal or group interests (Butler, 2012). Political competition oriented towards personal interests can damage financial governance in the event of abuse of authority, negatively impacting audit opinion (Bardhan, 2002 in Pranaswati & Kiswanto, 2020). Therefore, this study is expected to provide empirical evidence on how political competition moderates the relationship between audit findings and audit opinion. This study examines the effect of audit findings on audit opinion, with political competition as a moderating variable. Political competition can worsen financial management conditions if personal or party interests are more dominant than the public interest. Previous research shows mixed results regarding the effect of audit findings. Bangsawan & Abbas (2021) found that

non-compliance affected audit opinion, while Rahayu & Fidiana (2018) showed that internal control systems weaknesses were negatively related to opinion. However, non-compliance did not significantly affect audit opinion. This study uses the same independent variables but adds the moderating variable of political competition with different sampling and years, namely the city/regency local governments in Indonesia right in 2016 adjusting the findings of the Local Government Financial Statements according to the contents of the Overview of Semester Audit Results one and two in 2017 (Badan Pemeriksa Keuangan Republik Indonesia, 2017a; Badan Pemeriksa Keuangan Republik Indonesia, 2017b).

**LITERATURE REVIEW**

*Agency Theory*

According to Wau & Ratmono (2015), the relationship between principal and agent in the context of government can be analyzed through agency theory. In this context, the public acts as a principal who delegates authority to the local government as an agent. The local government is then obliged to report the results of implementing the mandate in financial statements, which reflect the management of resources entrusted by the community. Messier et al. (2006) identify two main problems in agency relationships: conflict of interest and information asymmetry. Conflicts of interest occur when the objectives of management are not always aligned with those of the principal. Information asymmetry, on the other hand, arises when management has more information about the financial position than the principal. To overcome this problem, transparency is needed in accountability reporting and local government financial reports, as expressed by Rustiyansih and Immanuela (2014). However, in this context, it is essential to consider other viewpoints, such as stewardship theory, to provide a more comprehensive picture of the principal-agent

relationship in government.

Stewardship Theory

Stewardship theory offers a different perspective by emphasizing the agent's sincerity and commitment to the principal's mandate. This theory argues that agents (in this case, local governments) act not only in their self-interest but also with complete dedication to the welfare of the principal (society) (Davis et al., 1997). In this framework, the relationship between principal and agent is seen as more than a conflict of interest, but rather as a cooperation based on trust and loyalty. This approach explains how local governments can better fulfill their mandates, reducing conflicts of interest and information asymmetries identified in agency theory. Assuming that local governments function as stewards whose interests and motivations are aligned with those of the public, problems often encountered in agency relationships, such as conflicts of interest, can be minimized.

Public Choice Theory

According to Maskur (2021), public choice theory assumes that every decision collectively contains individual motives. This leads to the view that personal and group interests become the main foothold for bureaucracy, politicians, people's representatives, and other interested parties rather than the public interest in their activities and actions. Lifting perceptions in economics, the public choice perspective advocates a kind of collective switching procedure between the public (voters) and those in power (government or political parties) in the form of political forms and open political processes (Wisudawati, 2014). In the relationship between the two assumptions above, the public, in forming political decisions, is based on the community's wishes. It includes efforts to obtain benefits for group and personal desires by actors who make these decisions (Butler, 2012). Intense political competition between the legislature and the executive will create a large difference in information for both parties. Utami et al., (2019) explain that political competition is a level of competitiveness in occupying a strategic position in government. Local People's Representative Council is an institution whose position and role is strategic because it is related to examining regional finances to control regional financial procedures in an accountable, transparent, effective, efficient, and economical manner. Legislatures that have information can minimize the power of the executive. The legislature can utilize its principal authority to

match the information advantage of the executive by determining the terms of the budget measures from the options proposed by the executive, conducting budget reviews, and monitoring the executive's activities.

Hypothesis Development

Audit findings on weaknesses in the internal control system significantly impact the Audit Opinion. Rahmi & Ariani (2020) state that local governments with superior internal control can suppress the creation of many problems to minimize the number of Audit boards of the Republic of Indonesia audit findings. If the quantity of findings decreases, the opinion will improve, and vice versa. In the context of linkage with agency theory, the relationship between local government and the Regional House of Representatives and the public can lead to information asymmetry because the government has direct access to information compared to the public. Accountable information is needed to present local government financial reports in the inspection process by the Audit Board of the Republic of Indonesia (Rustiyaningsih & Immanuela, 2014). This is added to the results of several previous studies by Siregar & Radiansyah (2019) and Rahayu & Fidiana (2018), which state that audit findings for internal control system weaknesses can negatively affect audit opinion. Semakin The more weaknesses found in the internal control system, the worse the audit opinion given. This is based on the assumption that weaknesses in the internal control system reflect incompetence or non-compliance in financial management, which has a negative impact on the auditor's judgment.

H<sub>1</sub>: Audit findings on weaknesses in the internal control system have a negative effect on audit opinion.

Public choice theory explains that elected government officials (executive and legislative) are politicians whose decisions are made not only for the needs of society but also for their own or their group's needs (Butler, 2012). Political competition that focuses on personal, group, or political party needs will have a negative impact and affect government financial governance if it is carried out with abuse of authority so that it can be an influence in obtaining an opinion on the financial statements, which is due to the discovery of problems related to the internal control system. On the other hand, the agency relationship between the legislature and the executive can create information mismatches

between the two. Political competition can occur between the executive and the legislature in various regional financial management agendas that concern the executive and the legislature. Political competition can exacerbate the negative impact of findings of internal control system weaknesses on audit opinion. Political competition is a moderating variable affecting the strength of the relationship between audit findings and audit opinion. Political tension can exacerbate the negative effect of internal control system weakness findings on audit opinion.

H<sub>2</sub>: Political Competition as a moderating variable can strengthen the negative impact of Audit Findings on Internal Control System weaknesses on Audit Opinions.

Based on State Financial Audit Standards in Indonesian, it is called Standar Pemeriksaan Keuangan Negara (SPKN) tahun 2017 number 27. Compliance with statutory provisions is the primary concern in an audit assignment. If discrepancies are found in violations, they can become a list of audit findings for non-compliance. Concerning agency theory, findings of non-compliance with statutory rules indicate the emergence of irregularities in the work of state finances by the agent or local government as the perpetrator (Kusumawati & Ratmono, 2017). Various findings of non-compliance with major legislation were found to cause many to get an increasingly unfavorable opinion. The results of studies conducted by Siregar & Rudiansyah (2019) and Bangsawan & Abbas (2021) have shown that audit findings for checking compliance with statutory rules have a negative impact on audit opinion. Audit findings related to non-compliance with laws and regulations have a negative impact on audit opinion. Non-compliance findings indicate that there are irregularities in the implementation of the rules that have the potential to harm the audit opinion given. H<sub>3</sub>: Audit findings on non-compliance with laws and regulations have a negative effect on audit opinion.

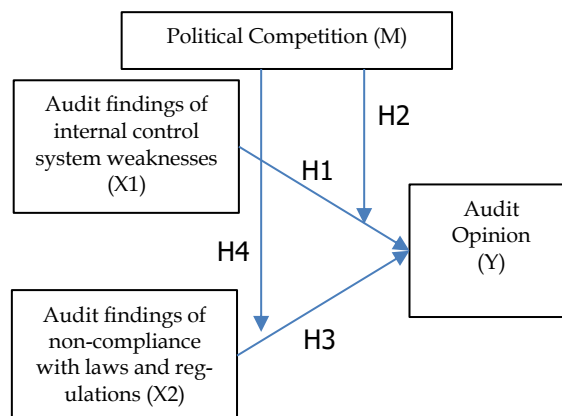
Bardhan (2002) in Pranaswati & Kiswanto (2020) stated that political competition describes the competition in which each other gains power to direct government and distribute existing resources in the context of political needs and the needs of many people. This relates to public choice theory, where noncompliance with regulations is caused by elected officials who abuse their authority and conflict with laws and regulations based on personal or group interests above the public interest. Political competition can exacerbate the negative impact of findings

of non-compliance with laws and regulations on audit opinions. In this case, political competition serves as a moderating variable that strengthens the relationship between non-compliance with laws and regulations and audit opinion.

H<sub>4</sub>: Political competition as a moderating variable strengthens the negative impact of audit findings for non-compliance with the law on the Audit Opinion.

Research Framework

The research framework below shows that political competition is a moderating variable that acts as a factor that causes the strong or weak impact of audit findings for internal control system weaknesses and audit findings for non-compliance with laws as independent variables and the dependent variable, audit opinion.



**Figure 1. Research Framework**

The framework shows that political competition is a moderating variable that has a role in weakening the impact or strengthening the impact of the relationship between the independent variables, namely audit findings on internal control system weaknesses and audit findings for non-compliance with laws, and the dependent variable, namely audit opinion. Some factors influence the quality of a good audit opinion, including audit findings and political competition. Audit findings show problems determining opinions due to the Audit Board of the Republic of Indonesia examination. Meanwhile, political competition based on the unequal political parties of council members and regional heads shows their efforts to display work performance, including accountability for financial management, as seen in the opinion of local government financial reports.

**RESEARCH METHODS**

The data analysis method applied in this study is quantitative data analysis techniques using the help of SPSS version 25. The hypothesis testing

process in this study uses binary logistic regression analysis with MRA. The population in this study used the entire number of city/regency local governments in Indonesia intended for financial reports 2016, which were selected as the material examined. Determination of the research sample using a purposive sampling method. Purposive sampling is sampling that matches the desired information or meets the criteria determined by the researcher (Hartono, 2024). The criteria for determining the sample in this study are first, Regency / City local governments in Indonesia that have submitted FY 2016 Local Government Financial Reports to the Audit Board of the Republic of Indonesia and received an opinion from the Audit Board of the Republic of Indonesia which can be seen through IHPS I and II 2017. Second, Regency / City local governments with audit findings data on internal control systems weaknesses and non-compliance with legislation can be obtained in IHPS I and II of 2017. Finally, Regency / City local governments have political competition data in the form of the number of Regional House of Representatives seats and the number of parties supporting the elected regional head, which can be obtained at the General Election Commission. The type of data in this study is secondary data, where information on local government financial reports, audit opinion for the 2016 fiscal year, and audit findings comes from the Overview of Semester Inspection Results One and Two in 2017 published on the Website of the Audit Board of the Republic of Indonesia of the Republic of Indonesia with the Website address <http://www.bpk.go.id/ihps> (Badan Pemeriksa Keuangan Republik Indonesia, 2017a; Badan Pemeriksa Keuangan Republik Indonesia, 2017b). On the other hand, data on the moderating variable of political competition from <http://www.opendatakpu.go.id/>, the UI Center for Political Studies and the official Website of the Central Statistics Agency in Indonesian called Badan Pusat Statistik (BPS) of each district/city government, as well as disseminated on the Website of each city and district government.

In this study, audit opinion is the primary dependent variable that describes the overall result of the Local Government Financial Report examination. Based on Law Number 15 of 2004, the Audit Board of the Republic of Indonesia can give four types of audit opinions. For this study, audit opinion is measured using a dummy variable, where the unqualified category is given a value of 1, while the non-unqualified category is given a value of 0. Of the 542 local government financial reports examined in

2016, 379 obtained unqualified opinions, 141 obtained qualified opinions, and 23 obtained disclaimer of opinions. The sample analyzed in this study consists of 395 opinions, with details of 268 unqualified opinions, 105 qualified opinions, and 22 disclaimers of opinions, using a nominal scale by the approach applied in previous studies by Siregar & Rudiansyah (2019) and Surya & Suparno (2019).

As the independent variable, this study evaluates two main factors. First, audit findings of internal control system weaknesses measure how internal control practices in APBD administration, accounting records, reporting, and organizational structure adhere to adequate control principles. These findings are calculated based on the number of cases listed in the Semester Audit Results Overview, with a nominal scale referring to the research of Alfiani et al. (2017) and Naopal et al. (2017). Second, audit findings on non-compliance with legislation, which include violations of statutory provisions, are divided into five classifications: indications of regional losses, revenue shortfalls, administrative weaknesses, inefficiency, and ineffectiveness. This finding is measured by the number of cases of non-compliance with a nominal scale, according to research by Rahayu & Fidiana (2018), as well as Alfiani et al. (2017) and Naopal et al. (2017).

In addition, this study considers political competition as a moderating variable. Political competition measures the level of competition for strategic positions in government, which can be indicated by council members' support or rejection of the regional head. In a multi-party democratic system, the support of the regional head may involve a coalition of several political parties. The political competition variable is measured by comparing the number of board members from nonsupporting parties of the regional head to the total number of board members, using a ratio scale according to the method of Trisnawati and Achmad (2014). By analyzing these variables, this study aims to understand how these factors affect audit opinion and how political competition can moderate the relationship.

**Table 2. Operational Definition of Overall Variable**

Research Variables	Measurement	Scale	Source
Local Government Financial Reports Audit Opinion (OPIN)	Unqualified opinion is given a value of 1, and non-unqualified opinion is given a value of 0 (Dummy variable)	Nominal	Siregar & Rudiansyah (2019), Surya & Suparno (2019)
Audit Findings on Internal Control System Weaknesses (TSPI)	Number of audit findings on weaknesses in the internal control system of each city/regency local government	Nominal	Siregar & Rudiansyah (2019)
Audit Findings on Non-Compliance with Laws and Regulations (TPP)	Number of audit findings on non-compliance with laws and regulations of each city/regency local government	Nominal	Rahayu & Fidiana (2018)
Political Competition (POLKOM)	Number of board members of parties not supporting the regional head / Total number of board members	Ratio	Trisnawati & Achmad (2014)

Source: Data Processed (2024)

**RESULTS AND DISCUSSION**

Results

The population coverage in this study uses all city/regency local governments in Indonesia whose financial statements in 2016 were the object of examination. Kusumawati & Ratmono (2017) explain that this population coverage comes from the results of research that also conducts studies on the Opinion of Local Government Financial Statements.

The number of research samples is determined using a purposive sampling method. In this study, purposive sampling is a sample selection method based on the suitability of the information needed or equivalent to the benchmarks implemented in previous studies, namely Hartono (2024). The sampling criteria applied in this study are presented in Table 3.

**Table 3. Sampling Criteria**

No.	Criteria	Total
1	Number of City-Regency Local Governments in Indonesia in 2016	508
2	City-Regency Local Governments in Indonesia that did not submit local government financial reports for FY 2016 and did not receive an opinion from the Audit Board of the Republic of Indonesia	(0)
3	Local governments have no data on findings of internal control systems weaknesses and non-compliance with laws and regulations.	(0)
4	Local governments that do not have political competition data	(113)
Number of Research Samples		395

Source: Data Processing (2024)

Based on the descriptive statistics table, the total sample size (N) is 395. The lowest result for the local government financial report audit opinion variable (OPIN) is 0, which indicates a non-unqualified opinion, and the maximum value is 1, which indicates an unqualified opinion. The mean value of 0.68 shows the average value of local governments getting unqualified opinions compared to non-unqualified opinions.

The variable audit findings on internal control system weaknesses (TSPI) have a minimum value of

Two by Garut Regency. The maximum value of audit findings for internal control system weaknesses is 32 in Sarmi Regency. The average audit finding for internal control system weaknesses is 10.46, which indicates that, on average, there are 10.11 findings of internal control system weaknesses.

The minimum value of audit findings on non-compliance with laws and regulations (TPP) is two findings originating from Sabang City, Ciamis Regency, Sleman Regency, and Buleleng Regency. The maximum value is 26 findings originating from

Bolaang Mongondow Regency. The average violation of laws and regulations of 10.54 indicates that, on average, there are 10 11 audit findings for non-compliance with laws and regulations.

The level of political competition (POLKOM) has the lowest result of 0.03, indicating that political competition is minimal, and a large proportion of council members come through the party supporting the regional head. The result of 0.03 comes from the West Lampung Regency. The maximum value of political competition is 1, indicating that political competition in the region is quite large. In other words, not all board members come through the party that supports the regional head. The highest result of political competition consists of Batubara

Regency, Tanjungbalai City, Tulungagung Regency, Bukittinggi City, East Lombok Regency, Rejang Lebong Regency, Rembang Regency, Kupang Regency, Sabu Raijua Regency, Kupang City, Tomohon City, Donggala Regency, Paniai Regency, and Supiori Regency.

Regional heads who come through single or independent candidates create the result of one political competition. The median value of political competition is 0.6369, indicating that the median value of political competition in district/city local governments is a lot. In other words, half of all council members do not come through political parties that support regional heads.

**Table 4. Descriptive Statistics Testing Results**

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
<b>OPIN</b>	395	0	1	0.68	0.468
<b>TSPI</b>	395	2	32	10.46	4.407
<b>TPP</b>	395	2	26	10.54	4.605
<b>POLKOM</b>	395	0.03	1.00	0.6369	0.18606
<b>Valid N (listwise)</b>	395				

Source: Data Processing (2024)

The results of testing whether a framework is feasible are used to test the suitability or unsuitability of the model that has been created. The test results in Table 5 show that the significance result is 0.166, which is higher than 0.05. Therefore, H0 can be accepted. These results have shown that the model is acceptable and can conduct hypothesis testing because there is no significant difference between the model and its observation value.

**Table 5. Hosmer & Lemeshow Test Results**

Stage	Chi-square	df	Sig.
1	11.679	8	.166

Source: Data Processing (2024)

Testing the overall model fit is carried out to determine whether the model is in accordance with the data, both before and after the independent variables are entered. This test stage compares the initial value of -2 log likelihood (2LL0) at block number = 0 with the final value of -2 log likelihood (-2LL1) at block number = 1. Suppose the Log-likelihood value at block number = 0 is greater than the Log-

likelihood value at block number = 1. In that case, the hypothesized regression model is considered to be in accordance with the data (Ghozali, 2017). The complete model testing process can be seen in Table 6.

**Table 6. Comparison of Values -2ll<sub>0</sub> and -2ll<sub>1</sub>**

	-2 Log Likelihood	Value
1	Initial (block 0)	469,127
2	Initial (block 1)	228,358

Source: Data Processing (2024)

Table 6 shows that the initial value of -2 Log-likelihood is 469.127. After including both independent variables and one moderation variable, the final Log Likelihood value decreased by 228.358. The decrease in the likelihood value (-2LL) has indicated that the regression model has improved, or it can be concluded that the model used to hypothesize is the same for the data. The probability value of each respondent, as well as the probability distribution in showing the tendency of the variable, has been shown in Table 7.



**Table 7. Classification Matrix**

Observed		Predicted		Percentage Correct
		OPIN	Unqualified Opinion	
Step 1	OPIN	93	34	73.2
	Non-Unqualified opinion	28	240	89.6
Overall Percentage				84.3

a. The cut value is 0.500

Source: Data Processing (2024)

Table 7 shows that out of 395 observations, 127 observations got a non-unqualified opinion obtained from local government financial reports. After being predicted using logistic regression analysis, it is found that 34 observations have shown an unqualified opinion, or it can be stated that 73.2% of the 127 observations of local government financial reports have received a non-unqualified opinion. After being predicted, out of 268 observations of unqualified opinion, 28 observations have changed to not unqualified or 89.6% of 268 observations. Based on the results of the analysis that has been carried

out, overall, the model obtained is reliable in estimating the research sample with an accuracy rate of 84.3%.

Table 8 shows that the Nagelkerke R Square value is 0.688. These results have shown that the variability of the audit opinion variable that can be explained by the estimated audit findings on internal control system weaknesses, audit findings on non-compliance with laws and regulations, and political competition is 68.8%. In comparison, the other 31.2% can be described by many variables other than outside the model of this study.

**Table 8. Coefficient of Determination**

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	228.358 <sup>a</sup>	.492	.688

Source: Data Processing (2024)

The simultaneous significance test process aims to assess the joint influence of independent variables on the dependent variable. The logistic regression model in this study has conducted a simultaneous significance test, which has been carried out by comparing the Chi-square significance results in the "Omnibus Tests of Model Coefficient" table against an alpha value of 5% or a value of 0.05. If the significance level is lower than 0.05, the independent variables have a significant impact simultaneously on the dependent variable. The test results using the

"Omnibus Tests of Model Coefficient" are displayed in Table 9, which shows that the Chi-square value in the test, 267.769, reflects the improved quality of this regression model. The Sig. value of 0.000 is lower than the alpha value of 5% or 0.05, indicating that the independent and moderating variables, such as audit findings of internal control system weaknesses, audit findings of non-compliance with laws, and political competition, together have a significant influence on the audit opinion of local government financial statements.

**Table 9. Simultaneous Coefficient Test Results**

Omnibus Tests of Model Coefficients			
		Chi-square	Sig.
Step 1	Step	267.769	5
	Block	267.769	.000
	Model	267.769	.000

Source: Data Processing (2024)

The significance test process is carried out separately for each independent variable by comparing the significance results in the "variables in the

Equation" with the alpha results, which are 5% or 0.05. If the significance value obtained is smaller than 0.05, then the independent variable has a significant effect on the dependent variable partially.

**Table 10. Logistic Regression Coefficient Test Results**

		Variables in the Equation					
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup>	TSPI	-0.436	0.058	55.614	1	0	0.647
	TPP	-0.386	0.052	54.379	1	0	0.68
	Konstanta	10.907	1.153	89.428	1	0	54545.99

Variable (s) entered on step 1: TSPI, TPP.

Source: Data Processing (2024)

Based on Table 10, the test results produce the following regression model:

$$OPIN = 10,907 - 0,436TSPI - 0,386TPP + e \dots\dots\dots(1)$$

Before adding the moderating variable, partial test results can explain that the audit findings variable on internal control system weaknesses (TSPI) produces a negative regression coefficient of -0.436 and a significance level of 0.000. Because the significance level is smaller than  $\alpha = 5\%$ , H1 is accepted. This means that audit findings on weaknesses in the internal control system negatively and significantly affect the acceptance of audit opinion. The audit findings variable on noncompliance with laws and regulations (TPP) produces a regression coefficient of -0.386 and a

significance level 0.000. Because the significance level is smaller than  $\alpha = 5\%$ , so H3 is accepted. This means that audit findings on non-compliance with laws and regulations significantly negatively affect audit opinion.

The MRA test is available in the SPSS application and is used specifically for regression analysis where the regression equation has an interaction (multiplication of two or more independent variables). Variables that experience interaction or multiplication between two or more variables are called moderating variables. The moderating variable in this study is political competition because political competition explains its effect, whether it weakens or strengthens the relationship between the independent variable and the dependent.

**Table 11. Logistic Regression Coefficient Test**

		B	S.E	Wald	df	Sig.	Exp(B)
Step 1	TSPI	-1.028	.263	15.261	1	.000	.358
	TPP	-1.886	.317	35.396	1	.000	.152
	POLKOM	-39.550	7.131	30.760	1	.000	.000
	TSPI*POLKOM	.754	.341	4.876	1	.027	2.125
	TPP*POLKOM	2.055	.387	28.159	1	.000	7.807
	Constant	39.166	6.042	42.025	1	.000	102278778043775920.000

Source: Data Processing (2024)

Table 11 shows that the test results produce the following regression model:

$$OPIN = 39,166 - 1,028TSPI - 1,886TPP + 0,754TSPI*POLKOM + 2,055TPP*POLKOM + e \dots\dots(2)$$

The results of partial testing of the hypothesis after including moderating variables show that political competition as a moderator of audit findings on internal control system weaknesses on audit opinion. The regression coefficient value for the interaction variable between the findings of internal control systems weaknesses (TSPI) and political competition (POLKOM). It is 0.754 with a significance level of 0.027, lower than  $\alpha = 5\%$ . These results

have shown that the second hypothesis is accepted, which means that political competition successfully moderates the relationship between findings on internal control system weaknesses and audit opinion. Political competition as a moderator of audit findings on non-compliance with laws and regulations on audit opinion. The interaction variable between findings of noncompliance with laws and political competition gives a regression coefficient of 2.055 and a significance level of 0.000, which is lower than  $\alpha = 5\%$ . These results have shown that the fourth hypothesis is accepted, which means that political competition successfully influences the relationship between audit findings on non-compliance with legislation and audit opinion.

### *Discussion*

The results of testing the first hypothesis ( $H_1$ ) in this study indicate that audit findings on weaknesses in the internal control system, which are calculated based on the number of findings, have an effect on the audit opinion of local government financial statements and have a significance result of 0.00 less than 0.05. The regression coefficient has a value of -1.028 shows that the findings of internal control system weaknesses have a negative effect on audit opinion. This negative direction means that the findings of more internal control systems will increase the local government's chances of getting an unqualified opinion. However, vice versa, audit findings on low internal control system weaknesses cause a high probability of local governments getting an unqualified opinion. Rahmi and Ariani (2020) explain that audit findings are part of the results of an audit. Various findings combine various helpful information about a particular problem of an audit. More audit findings found on internal control systems indicate problems related to the internal control system of a local government, causing the Audit Board of the Republic of Indonesia not to provide an unqualified opinion. In the context of the relationship with agency theory, the Audit Board of the Republic of Indonesia's opinion becomes a result of an examination of the level of fairness of financial information presented in the financial statements of local governments, which can be a cause of information asymmetry between the executive and the public. The occurrence of asymmetric information where in the agency relationship in government, the executive is the agent getting more information about the actual financial position than the public as the principal. This can be minimized by presenting informative and accountable local government financial reports required through the audit process. Varici (2013) states that as the quality of the audit results improves, the local government financial reports contain an accountable explanation, and information asymmetry shrinks. The test results in this study are similar to the results of studies previously conducted by Surya & Suparno (2019) and Siregar & Rudiansyah (2019), which have shown that the number of findings on internal control systems audits influences the audit opinion of the Audit Board of the Republic of Indonesia. Rahmi and Ariani (2020) stated that audit findings negatively influence opinions on city or district financial reports. These results have shown that audit findings on internal control system weaknesses calculated based on the results of audit findings can be used to determine the audit opinion of local government financial statements.

The results of the second hypothesis ( $H_2$ ) regression test show that the interaction variable of audit findings on internal control systems weaknesses with political competition has a significance level of  $0.027 < \alpha = 5\%$ . This proves that the political competition variable can moderate the effect of audit findings on internal control systems' weaknesses on audit opinion, or it can also be concluded that the second hypothesis is accepted. The regression coefficient of 0.754 explains that political competition strengthens the negative effect of audit findings on internal control systems' weaknesses in audit opinion. This shows that the higher the political competition occurs, it can exacerbate the number of audit findings on the internal control system, which can affect a local government in receiving an opinion so that the chances of receiving an unqualified opinion are smaller. In the context of public choice theory, government is a political activity carried out by each individual who rationally prioritizes personal interests. Differences in political views and goals between Regional House of Representatives members and regional heads can create political competition between them, especially to maintain power as the primary decision-maker in public policies related to the local government's internal control system. According to Government Regulation No. 60/2008, the internal control system is a structured process of actions and agendas carried out consistently by the leadership and all employees (Indonesia, 2008). The findings of various internal control systems weaknesses are divided into three categories: weaknesses in accounting and reporting control systems, weaknesses in the control system for the implementation of revenue and expenditure budgets, and weaknesses in the control structure. These findings can be found by the Audit Board of the Republic of Indonesia if the executive or legislative parties who can use their central authority in determining policies related to the government's internal control system abuse their authority based on personal or group interests.

The third hypothesis ( $H_3$ ) indicates that audit findings of non-compliance with laws and regulations negatively influence audit opinion. The regression test results show that the audit findings of non-compliance with laws and regulations as measured by the number of findings have a significance level of  $0.000 < \alpha = 5\%$ , which means that the variable audit findings of non-compliance have a significant effect on audit opinion. These results indicate that the third hypothesis is accepted. Meanwhile, the regression coefficient of -0.386 indicates that the relationship between the independent and

dependent variables has a negative direction. This means that if the audit findings on non-compliance with the rules of the law are high, the chances of the local government getting an unqualified opinion will be smaller. Meanwhile, if there are few audit findings on non-compliance with laws and regulations, the chances of local governments obtaining an Unqualified Opinion are greater. These results are the same as research conducted by Furqan et al. (2020) but not in line with Salsabila and Wahyudi (2022) and Wahyuni et al. (2023). Compliance with laws and regulations is one of the qualifications of the Audit Board of the Republic of Indonesia in determining an opinion on a local government financial report. In providing an opinion, it has referred to assessing compliance with statutory provisions (Bangsawan & Abbas, 2021). In relation to agency theory, Kusumawati and Ratmono (2017) explain that findings of non-compliance with laws and regulations indicate that there have been irregularities or violations in managing state finances by the agent or local government as the perpetrator. The more findings of non-compliance with legislation are found, the worse the opinion obtained. Novianti and Kiswanto's research in Tama & Adi's research (2018) stated that the findings of non-compliance with legislation also resulted in cases of regional losses due to the resulting inefficiency. The test results in this study support the research Siregar & Rudiansyah (2019) and Bangsawan & Abbas (2021), which explain that the number of findings on compliance checks affects the Audit Board of the Republic of Indonesia audit opinion.

The regression test results on the fourth hypothesis ( $H_4$ ) have shown that the interaction variable of audit findings on non-compliance with laws and regulations with political competition has a significance level of  $0.000 < \alpha = 5\%$ . These results explain that the political competition variable can moderate the effect of audit findings on non-compliance with legislation on audit opinion, or it can be said that the fourth hypothesis is accepted. The regression coefficient of 2.055 indicates that the political competition variable moderates the negative effect of audit findings on non-compliance with laws on audit opinion. The results of this study prove that the greater the political competition can strengthen the negative effect of audit findings on non-compliance with legislation on the audit opinion of the 2016 Regional Government Financial Statements, and vice versa. This means that political competition in the Regional House of Representatives moderates the relationship between findings of non-

compliance with legislation on the Audit Board of the Republic of Indonesia's audit opinion. The results of this study can prove the theory of public choice, where (Bardhan, 2002 in Pranaswati & Kiswanto 2020) states that political competition that occurs between elected government officials with different interests in terms of personal needs, groups, or their respective political parties will have a negative impact on government financial governance if there are indications of poor utilization of power that is not in accordance with the provisions in the law..

## CONCLUSION

This research aims to see the effect of audit findings on audit opinion with political competition as a moderating variable. The test results that have been carried out in this study have shown that audit findings on internal control systems weaknesses and audit findings on non-compliance with legislation significantly negatively impact the audit opinion of the Local Government Financial Statements. In addition, the political competition variable can moderate the negative effect of audit findings on internal control systems weaknesses and audit findings on non-compliance with laws on local government financial reports audit opinion. The results of this study show that audit findings influence the audit opinion of the Local Government Financial Statements. However, it must be noted that reference to agency theory in this context is inappropriate. There are indications that a mismatch in the mandate's implementation by the local government as an agent may contribute to a negative outcome. Instead, the results of this study are more supportive of stewardship theory, which emphasizes the importance of local government responsibility in managing state finances as a form of service to the public. Thus, the emphasis on responsibility in financial management is more consistent with the principle of stewardship, which focuses on integrity and accountability, compared to agency theory, which highlights the potential conflict between the interests of the principal and the agent.

This study only measures the audit opinion variable with dummy variables because the audit opinion data obtained by the regional government in the 2016 local government financial reports does not contain all audit opinions. The research has not fully explained the factors that influence audit opinion because there are still other variables that can explain the audit opinion of local government financial statements that are not included in this study due to time and data limitations. Future research can also

use other measurements of political competition variables as a comparison to determine which measurements are more appropriate for calculating political competition, such as measurements in research (Sutaryo & Amanu, 2020), which are calculated by the level of vote acquisition for the first and second highest parties. This study only measures the audit opinion variable with dummy variables because the audit opinion data obtained by local governments in the local government financial reports 2016 does not contain all audit opinions. Researchers suggest several things that can be considered for further research, one of which is the use of ordinal variable measurements for audit opinion variables and selecting local government financial reports for Fiscal Years for which all types of audit opinions are available (unqualified, qualified, adverse opinion, and disclaimer of opinion) so that they can use an ordinal scale. For future research, it is recommended that researchers develop a mixed methodology with qualitative data, explore other variables that affect audit opinion, and conduct longitudinal analysis to see changes over time. Research can be compared across regions with different levels of political competition and use data from more fiscal years. In addition, it is essential to develop more holistic indicators of political competition and encourage the involvement of various stakeholders in the research to gain a broader perspective. With these steps, it is hoped that the understanding of the influence of audit findings and political competition in local financial management can be improved.

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